

**Transcript of Chairman Kent Conrad Opening Remarks
at Press Conference with Congressman John Spratt on the
Budgetary Implications of Social Security Reform
July 23, 2001**

Tomorrow the President's Social Security commission will release an interim report telling us the Social Security system is in trouble, that with the retirement of the baby boom generation we will see a problem of too many retirees claiming Social Security benefits and not enough workers paying payroll taxes to support those benefits. You saw the report last week that said we face deep benefit cuts, substantial tax increases and massive debt as a result. Our question is, where was the Administration when we wrote the budget? Where were they? That was our opportunity to address in some meaningful way these challenges that are to come.

This shows the outlook for the available surplus. When one takes out just the cost of the tax bill, the cost of other budget resolution policies, the Bush defense request, possible economic revisions we believe are coming in August, the associated interest cost and the Social Security transition cost that is contemplated by this administration at two percent of payroll – when you factor in all of those costs what you see is red ink as far as the eye can look. You see deep raids on both Medicare and Social Security trust funds, in fact they are raided each and every year of the 10 year budget plan.

That is why the budget plan we presented to our colleagues did not use Social Security or Medicare trust funds for other purposes. That's why the budget plan we put before our colleagues included \$900 billion to strengthen Social Security for the long-term to deal with this long-term liability. We all know it costs money. If we're going to do things to strengthen Social Security, it costs money. But this Administration has not budgeted for that cost.

As one way out of this, the Administration is now saying there really aren't Medicare Trust Funds that are meaningful, that there really aren't Medicare Trust Fund surpluses. The assertion that there is no Medicare Trust Fund surplus just isn't so. You see a substantial surplus according to their own documents of Medicare Part A for each and every year of this budget. A vast majority of Medicare Part A income is from payroll taxes.

Medicare Part B is for payments to physicians and to other professional services. Medicare Part B surplus, this from the Congressional Budget Office, shows that Part B is in rough balance, actually a slight surplus for the years of the budget. And Medicare Part B income is from these sources - 23 percent from premiums, 73 percent from the general fund. It is this money from the general fund that they are asserting represents a deficit. It is not in deficit. We don't apply that terminology to any other program that is funded by general funds. We don't say the Defense budget is in deficit. It is funded 100 percent by the general fund. We don't say Education is in deficit. We don't say that any of the other expenditures of government are in deficit because they bring in less money than they spend. That isn't the test that we apply.

Others are saying if you use Medicare trust fund money for some other purpose, that doesn't

constitute a raid. Let me just depict here what is occurring. The taxpayer sends his payroll taxes to the federal government. They are deducted and credited to the Medicare Trust Fund. That certainly is not a raid at that point. Then the question is, how is the money used? If the money is used to pay for Medicare benefits, I don't think anyone would call that a raid. If it is used to pay down the debt, that's certainly not a raid because any trust fund that is in surplus goes to pay down the debt. But I would suggest to you that if it is used to pay for tax cuts or other programs, that does constitute a raid on Medicare because Medicare payroll taxes are then being used to pay for some other function of government and that has consequences down the line.

When the taxpayer pays payroll taxes that are credited to the Social Security Trust Fund, the money can either go to pay Social Security benefits, to pay down debt, to pre-pay the liability. I would assert that any of those are not a raid. But when the money is used to pay for a tax cut or for other programs, that is, I believe, clearly a raid on the trust funds. It is money that is being used for another purpose, a purpose other than for which it was intended. And the consequences are clear. We are then less able to meet the demands of what we all know is to come. The irony here is that all of these events are coming together. On the one hand the Administration is saying we have a huge problem coming that's going to mean massive tax increases, big cuts in benefits, and massive debt. But they themselves have contributed to the problem by their budget plan which did nothing to address this long-term problem.

Our question to the Administration is, how are you going to pay for this? Where is the money going to come from to deal with this long-term threat to Social Security and Medicare?